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C O N F I D E N T I A L SECTION 01 OF 04 MAPUTO 000559

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SUBJECT: MOZAMBIQUE - CORRUPTION UPDATE

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Classified By: Ambassador Helen La Lime, for reasons 1.4 (b/d)

1. (C) Summary: Mozambique has a serious corruption problem. The former Chissano government did little to confront the problem despite repeated promises. In the past three months newly-elected President Guebuza has vowed to take action. There are signs that his government is serious about grappling with the rot, though it is too early to conclude that its efforts will have a fundamental, far-reaching effect. End summary.

Mozambique is Perceived as Corrupt

2. (U) Corruption remains a serious problem in Mozambique. In its 2004 Corruption Perceptions Index (CPI) report, Transparency International gave Mozambique a CPI score of 2.8 (on a 0 - 10 scale, from most to least corrupt). Transparency International placed Mozambique in the same grouping as Russia, The Gambia, Malawi, India, Nepal and Tanzania. Its CPI score was 2.7 the year before.

3. (C) Regionally, both Zimbabwe and Zambia were rated worse than Mozambique by Transparency International, but South Africa, Botswana, and Namibia (and another SADC member, Mauritius) received much higher scores. We hear regularly from visiting businessmen of the challenges they face working with Mozambican officials, compared to doing deals in Johannesburg or Gaborone.

Some Systemic Reasons for Corruption

3. (SBU) One impetus for corrupt behavior lies with government salaries, which are not very high. A government minister, at the top rung of the government pay scale, can expect a salary of approximately \$1,500 - \$2,000 a month. He also gets free housing (in which case he can rent out his own home), free use of several cars, and some other perquisites. Nonetheless, this income is insufficient to support the lifestyle expected of those holding this office, particularly by their friends and family who hope to profit from their position. And so ministers regularly engage in "esquemas" or deals to supplement their salaries. The wealth identified by Minister of Finance, Manuel Chang, who published a list of his assets shortly after beginning work as minister in February, demonstrates this. Minister Chang may have declared his assets thinking that they were relatively modest in comparison with those of his peers -- no other minister was as forthcoming, and indeed the law only requires that assets be disclosed to a government body and not the public. All told Chang's net worth totaled close to \$500,000 -- far more than one could reasonably expect a middle-aged civil servant just reaching the ministry level to have saved on his government income unless he had family money or made extremely lucrative investments.

4. (SBU) Another factor in corruption is the outdated and cumbersome legal system which Mozambicans inherited from the Portuguese. Colonial-era laws are often inappropriate now and so need to be rewritten, but doing so takes expertise, which is hard to come by locally, and time. Meanwhile, to get things done, deals are made informally -- with monetary bribes or favors. Added to the awkward regulatory environment, officials make liberal use of fines in Mozambique. By law they are given considerable latitude in what fines they levy and are rewarded, in many instances, with a portion of the fines, too. This, of course, encourages corrupt behavior.

5. (C) More insidiously, corruption flourishes because powerful senior leaders are insulated from public scrutiny and discipline due to the "politburo" system of government in Mozambique. FRELIMO, the ruling party, dominates all branches of government and runs the country. In turn, FRELIMO is run by a small coterie of men and women who form the 15 member Political Commission. These individuals are not directly elected by the people, and so not directly accountable to them, but instead obtain their positions through political arrangements between the Political Commission and the broader FRELIMO body, the 172-member Central Committee. All important decisions, from the selection of government ministers to decisions on major investments, depend on support from the Political Commission. Therefore, Mozambique has a system where its leadership is

only indirectly responsible to the broad electorate, and these 15 individuals have enormous power. This setup, clearly, discourages accountability and transparency.

16. (C) To illustrate how such a monopoly on power by this group leads to corruption, consider the case of retired general Joaquim Chipande, hero of Mozambique's liberation struggle for allegedly firing the first shot at a Portuguese district administrator in 1964. He is a member of the Political Commission, and has been for many years, even though he eschews politics. Nothing gets done, the saying goes, in his home province of Cabo Delgado without his approval. For example a local Cabo Delgado businessman, according to one of our staff who knows him, gave up trying to negotiate a fair price for the land on which to build a five-star hotel after being confronted by Chipande. One evening Chipande called him to his private yacht at midnight for a 'friendly' meeting to talk over the deal, but set a handgun on the table. In the end the businessman got a second hand delivery truck in exchange for the land. It is unclear what Chipande received.

----- Chissano Government Anti-Corruption Efforts -----

17. (SBU) The outgoing Chissano government took some action against corruption in its last several months. The Director of the National Social Welfare Institute (INAS) was suspended in August 2004 after being accused of siphoning money out of INAS, which is now widely believed to be close to bankruptcy. An inquiry was ordered earlier in the year into another INAS sub-delegate accused of corruption by an anonymous whistle-blower. In August 2004, the National Assembly passed a long-awaited Anti-Corruption Law. The legislation aims to fight corruption in government offices, hospitals, schools, and the police by making bribe-taking punishable by imprisonment. The law also provides more protection for whistle-blowers, modifies a key provision on requests for permits, and imposes new obligations on state auditors by requiring them to report in writing to the Attorney General's Anti-Corruption Unit (ACU) any audit that reveals corrupt practices. The ACU indicted two dozen individuals on corruption charges in 2004, doubling the number indicted in 2003. With USG support, the ACU has expanded its coverage outside the capital city by opening new offices in the two main provincial capitals of Beira and Nampula. The GRM has stated that it plans to increase budget levels for the ACU in 2005 and 2006.

18. (C) But there were setbacks as well. According to a January 2005 press report, then-Minister of Planning and Finance and current Prime Minister Luisa Diogo dismissed three ministry officials, allegedly because they attempted to undermine a scheme directing state resources to FRELIMO. In January 2005 outgoing Minister of Health Francisco Songane distributed 36 cars to national directors and heads of department in his ministry. Though regulations exist that allow senior public servants the benefit of a car through long-term lease arrangements, the timing (he delivered the cars in the last week of his term) and value of the vehicles (approximately USD 36K each) provoked considerable criticism in the media.

19. (C) Virtually no one, at the senior levels anyhow, has yet been held accountable. All of the 24 ACU indictments from 2004 were turned down or otherwise rejected by judges. Thus there were no convictions, nor apparently even trials. As for the head of INAS, although he appears to have lost his job, the inquiry into his actions is not yet over and up until now he has not gone to prison. Investigations into the two high-profile killings of the last several years - investigative journalist Carlos Cardoso in 2000 and senior Banco Austral (a large local bank) official Siba Siba in 2001 - remain incomplete. In the case of Cardoso, prosecutors have followed the trail of responsibility only up to several wealthy Indo-Mozambicans, even though there is strong evidence implicating former President Chissano's son Nympine. As for the Siba Siba killing, no one has gone to trial at all. Attorney General Madeira in March presented his annual review in the National Assembly, and was openly ridiculed because his report left blank any sign of progress toward catching the guilty in these and several other high-profile scandals. Legislators, mainly from the opposition RENAMO party but, unusually, also from FRELIMO, scoffed when Madeira responded that he could not reveal details of ongoing investigations.

----- What More Can Be Done? -----

110. (SBU) The Media and Civil Society: Within Mozambican civil society, the media continues to be one of the main anti-corruption forces, reporting and investigating numerous corruption cases. With USG support, in 2004 the NGO Etica Mozambique established eight corruption reporting centers in Maputo and Beira. The centers provide citizens with free

legal advice, justice sector ombudsman services, and a mechanism for confidentially reporting corruption-related crimes to the Attorney General's office. This effort by Etica was developed in close coordination with the ACU. Further USG support to the media or civil society to expose corruption would be worthwhile, and we included in our Mission Performance Plan a request for FY07 ESF for this purpose.

11. (SBU) The Judiciary: The judiciary continues to hamper efforts by the Attorney General's Office to fight corruption, as shown by its rejection of ACU indictments. Partly this is the result of under-staffing and poor training. There are fewer than 100 prosecutors and only 184 judges in Mozambique, and many lack specific technical skills. Isabel Rupia, head of the ACU, admitted to the press in late 2004 that the number of cases entering the court system from the ACU was far too low. She called for the creation of an independent body of auditors and specialized investigators to follow through on court cases. In 2004 the USG supported the training of 20 new-entry magistrates, as well as specialized training of 21 prosecutors, representing an important contribution to a judicial system plagued by huge case backlogs.

12. (SBU) Public Sector Reform: Progress on the GRM's highly publicized public sector reform has been slow. The UK's Department for International Development (DFID) is the lead donor assisting the GRM in its public sector reform activities by providing functional analysis and support for various quick impact projects (e.g. salary reform). One reform goal, among others, is to coordinate all donor funding through a new donor-supported budget tracking system known as SISTAFE. A pilot project with SISTAFE should start within the GRM in 2005; the GRM hopes to have all of its ministries' funding tracked via SISTAFE by the end of 2006.

----- Guebuza Government Efforts -----

13. (C) President Guebuza made fighting corruption a key message in his campaign, and since taking office has repeatedly emphasized combating corruption in his speeches. Queried by Assistant Secretary Newman in March whether he meant business with all his rhetoric, he answered that she should look to the staff he has appointed to gauge his commitment. Several cabinet ministers have promised real action on corruption, and indeed three of them -- Jose Pacheco, Minister of Interior; Felicio Zacarias, Minister of Public Works; and Aires Aly, Minister of Education -- were governors with strong records either for openness (Pacheco) or being tough on corruption (Zacarias and Aly). The Guebuza government has begun to act. Auditors have begun looking into the misappropriation of funds in the Interior Ministry, presumably at the invitation of Minister Pacheco. The new governor of Maputo province, Telmina Pereira, in March toured the Ponto do Ouro resort area, on the South African border, and upon her return the government announced that a number of illegally-built houses there would be torn down. The Agriculture Ministry has declared that those who have not developed land they have leased from the government will be forced to surrender their holdings back to the state. Most recently, employees at the headquarters of state ministries have been told to leave official vehicles in the parking lot after work, rather than driving them home, and use of cell phones has been severely restricted. There is growing grumbling among the Frelimo party elite over the crackdown, a sign that the fight against corruption is having a palpable effect.

14. (C) Complicating matters is the fact that Guebuza, widely regarded as one of the wealthiest men in the country (he is a part-owner of more than a score of major enterprises), has grown rich as a powerful party insider with ties to the commercial sector. Perhaps more than anyone, he has profited from such activity, at least in areas that elsewhere would be considered conflict of interest schemes, insider trading, influence peddling and the like. Can his claims to want to fight corruption be taken seriously? Some speculate that with a stake in the economy, he will be sure to keep it growing. In this view, then, he would not let corruption stifle business deals. Others guess that he will move to crack down on petty corruption, which saps public support for the government, but will do little to rein in the powerful.

15. (C) Comment: Mozambique remains seriously corrupt. President Guebuza is talking a tough line, at present, and appears serious in combating the evil, but he has been in office for just three months. The dilemma for donors (and it is worth remembering that fully half of the government budget is paid by donors) is that one lever they might wield to rein in corruption -- reducing assistance -- would certainly affect not only corrupt senior officials but the general population, too. As long as the government continues to manage the economy so that the well-being of all Mozambicans is improving, donors will be loath to cut aid. Anyway, by

African standards Mozambique's is certainly not the worst instance of a corrupt government -- Nigeria, Angola, Cameroon, Niger, Zambia, Zimbabwe and Sierra Leone all place far lower down the Transparency International CPI index. Ultimately, hope lies in fostering a sense among all Mozambicans to hold their government and institutions more accountable for the country's wealth. As they demand better behavior, the powerful will find it increasingly difficult to steal.

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